

ADDITIONAL VIEWS OF COMMISSIONERS ROBIN CLEVELAND AND WILLIAM A. REINSCH

We support this year's Report, although, as we note below, in failing to fully reflect the balance the bilateral relationship deserves, it does a disservice to the Congress, which is entitled to hear not simply what it wants but rather serious conclusions supported by thorough research and investigation.

Last year our remarks noted that the current government has halted and in some areas reversed the uneven but consistent march in the direction of a market economy of its predecessors. Instead of concentrating on meeting its WTO obligations, welcoming foreign investment and encouraging private sector activity, the government has turned to selecting national champions, increasing subsidies and selective tax benefits, creating new standards barriers and discouraging joint ventures. We share the Commission's concerns that these actions will make China's economic relations with the rest of the world more acrimonious.

Notwithstanding these developments, China continues to be the destination of choice for American companies interested in global expansion. Moreover, while the Commission reports extensively on China's failures with regard to its WTO obligations and is critical of the substantial cumulative trade deficits, balance is missing in this account. For example, the U.S.-China Business Council reports that export trade in goods has jumped 330 percent since WTO accession, with American companies experiencing better profit margins and real growth in their China market during 2009 when sales and opportunities elsewhere in the world were shrinking.

The United States has taken on the unenviable task of trying to persuade China to change policies that appear to be quite successful for them in the short run. Much of that debate revolves around the RMB exchange rate, which has become a proxy for the entire relationship. There is no question the RMB is undervalued, and it is in China's interest, as well as everyone else's, to rectify that. Its continued refusal to do so despite growing international pressure is a reflection of how difficult it is to move China away from a policy of self-aggrandizement and bring it into the community of nations working together to solve global problems. This will become even more important as more and more problems become global. The exchange rate, however, is a problem that neither the Congress nor the United States acting alone can resolve. As reflected in testimony before the Commission, the administration must collaborate closely with members of the G-20 to advance this matter to a satisfactory conclusion. Only by developing and asserting a coherent, collective position are we likely to secure Chinese cooperation. By endorsing legislation that will not—and cannot—solve the exchange rate problem, the Commission has also missed an opportunity to focus more clearly on the other issues in our economic relationship that could benefit both U.S. trade and interests.

The danger right now is that by responding to domestic political imperatives, both sides might fundamentally misjudge the other and not only miss an opportunity to build a more positive relationship but actually drive us apart. The United States, recovering too slowly from the worst recession in 80 years, seems tempted to act

out of fear, blaming China for our economic problems, just as 20 years ago we blamed the Japanese. While blame is tempting—and often well placed—it is *our* destiny we control, not theirs. Faulting them for doing things in their own interest is emotionally satisfying but ultimately an empty gesture. Our politicians serve our people best when they act in our interests and when they persuade the Chinese to work with us in pursuit of common interests.

Conversely, there is growing evidence on the political front to suggest China is acting out of misplaced confidence, bullying its neighbors and resisting efforts to reach international agreement on a range of issues. Most notable among the latter has been climate change where, despite pursuing domestic “green” policies that are more far-reaching than our own, China has steadfastly resisted an international agreement that would probably require them to do little more than they are already doing on their own. Further, we share our colleagues’ concerns about the government’s oppressive use of censorship and restrictions on internal political discourse, especially the recent response to the Nobel Committee’s decision to award Liu Xiaobo the 2010 Peace Prize, but more balance in coverage of political developments would have improved the Commission’s report. In recent days, senior party officials have commented that there is a need for political openness to accompany the economic reforms the government has implemented. It is too early to determine whether these voices for political reform will make a difference; however, it is our view that the Commission’s criticism of Chinese political repression should be matched by a more thorough account of these internal voices struggling to gain traction. Calling attention only to the patterns of oppression is a disservice to the very people most likely to secure meaningful change.

As noted by the United Nations Development Fund, the last two decades of rapid economic development have “generated the most rapid decline in absolute poverty ever witnessed.” China is one of very few nations that have already achieved the Millennium Development goal to halve the number of people living in extreme poverty by 2015. These are impressive achievements and speak to both the capacity and impact China’s leaders have had in guiding national economic progress. However, if China wishes to assume a global role commensurate with its size, potential, and aspirations, it must understand and be prepared to assume the obligations of leadership, which require a degree of self-abnegation. China’s leaders have demonstrated that they have a clear understanding of what is in their immediate interest. Their challenge will be to demonstrate they also understand what is in the larger interest of the global system of which they are a part, that the health of that system is inextricably tied with their own, and that they are prepared to act on that understanding.

ADDITIONAL VIEWS OF COMMISSIONER DENNIS C. SHEA

One could read this Report and reasonably come away with the impression that China is the primary culprit for the economic problems we are experiencing in the United States. So let's be clear: The economic mess in which America finds itself today is largely of our own making.

Comprehensively detailing the sources of our economic troubles and describing the steps needed to restore America's economy and international competitiveness are subjects that fall outside the mandate and competence of this Commission. Other organizations and government-sponsored groups have examined these important topics and will continue to do so. In my view, restraining excessive government spending, adopting tax policies that encourage investment and savings, and supporting the entrepreneurs and risk-takers in our country are just some of the actions we need to take. Admittedly, achieving even these goals will require a level of political discipline in Washington that we have not seen for many years. But, in the end, we are masters of our own fate.

To say that the United States is primarily responsible for its own economic problems, however, does not mean that China is a blameless party. China continues to undervalue its own currency to the detriment of U.S. exporters and our manufacturing sector. The purpose of this policy is pure self-interest: to support a level of employment in China considered necessary for social stability and the maintenance of political control by the Chinese Communist Party. Chinese Prime Minister Wen Jiabao perhaps spoke more candidly than he intended when he warned that any significant appreciation in the RMB might lead to "social and economic turbulence" as Chinese exporting companies closed their gates and migrant workers were forced to return to their villages.

Similarly, the year 2010 marked a shift in Chinese policy toward a more robust state-directed capitalism and saw the erection of a number of trade-distorting barriers around Chinese domestic markets considered of strategic importance. The implementation of an "indigenous innovation" policy, the imposition of export restraints on critical rare earth metals, and the apparent lack of access by some western companies to the Chinese "green technology" market are a few examples of these disturbing trends.

To insist that China reverse these protectionist policies, abide by its international commitments, and play a constructive role on the global stage cannot fairly be characterized as "China-bashing," a term too often used to denigrate those with legitimate concerns about Chinese government actions.

This Report also documents China's growing air and conventional missile capabilities while also highlighting the deteriorating quality of Taiwan's air force. While the Report recommends that Congress encourage the administration to continue to work with Taiwan to modernize its armed forces and particularly its air force, I would have preferred a more specific recommendation: Consistent with the obligations of the United States under the Taiwan Relations

Act of 1979, Congress should urge the administration to sell Taiwan the F-16s it has requested. Strengthening Taiwan's air defense capabilities in this way will send an important signal about America's commitment to regional security in East Asia and will help instill Taiwan with greater confidence as it continues down the welcome path of enhancing its economic, diplomatic, and cultural ties with its more powerful neighbor.